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Sanity in Reconstruction Legislation

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THE transition to the arts of peace presents to the statesmen and economists of America industrial problems more complex and varied than the transition, less than two years ago, to the arts of war. Our problem then was a single one. It was to concentrate the industries and resources of our country upon the work of supplying the materials needed, directly or indirectly, for war purposes.

This, indeed, involved many phases. It required the creation of new facilities to produce instruments of modern warfare which we had not produced before. It required the increase of our existing war facilities, and the conversion of non-war industries into war industries. It necessitated the curtailment, sometimes the cessation, of non-war business, and the elimination of waste and unnecessary production, so that capital, labor and materials could be released to make things needed for the war. It required priorities in production and in transportation, so that war needs could be made and moved before non-war needs, and the more urgent war needs before those that were less urgent.

But all these activities, and more besides, far-reaching and extraordinarily novel as they were, were only different avenues leading directly toward a single goal for which we aimed,—the mobilization of our resources, our capital and our labor, to the end that they should speedily produce the things necessary and helpful in winning the war, before producing things which did not contribute to that one great purpose.

Now, with that purpose accomplished, the journey back to the basis of peace is begun, and there is no longer a single goal towards which we aim. Not alone from this country, but from every part of the earth, will come calls to labor, industry and capital for purposes as many as the ambition and the initiative of men and nations, free to strive for their varied commercial and industrial interests, can devise.

On every side we hear measures suggested to aid us in our

journey from the single work of war back to the manifold works of peace. For almost every problem which can be conceived, remedies are being crystallized. Business men submit this plan, economists that, statesmen still another; and legislation of some kind is an incident of most of them.

The reasons for this wealth and variety of post-war advice are largely two: First, there is a marked tendency to regard as due to the war problems which are not really due to the war at all, but which exist independently of the war; secondly, there is inevitable inability at this time to know accurately what many of the problems which the war has really caused will be.

The first reason accounts for a large amount of suggested reconstruction legislation. The advocate of this economic doctrine or of that, sees in the experience of the war some reason for the adoption of his particular theory, and he straightway urges his theory as the solution of one of the problems which the war has left us, overlooking entirely the fact that the problem was with us before the war was thought of, and that at most the war merely emphasized its existence.

One noteworthy instance of this is the discussion of the effect of the federal anti-trust laws upon business and the question whether these laws ought to be modified or temporarily suspended or even repealed altogether. This has been recently and broadly discussed as if it were a war reconstruction problem. It is not. It is the same problem of competition against combination which first confronted the American people half a century ago, and of which our solution has been a series of statutes against combinations and monopolies, the underlying principles of which are certainly sound but the defect of which is their uncertainty, in that a decision of the supreme court is usually necessary before it can be positively known whether any business union violates the law or not.

The war has served to reopen this whole question, and the soundness of our solution of it. In the first place, in order to mobilize our resources upon a war basis, it was often required to pool production in a way which might not have been justifiable except on the ground of military necessity. This raised anew the question of whether the business of the country would be best subserved by a continuance of the same policy in time of peace.

Then the war showed how much industry can do, through organization and united effort properly supervised, towards eliminating extravagance, waste and unnecessary production, and how commercial and industrial economies can reduce and stabilize costs. All this is directly in the interests of the consumer, and yet, without the consent of the government, which would be at least difficult to secure in time of peace, industry fears to unite even for such beneficial purposes as these.

This condition could in large part be remedied by a law declaring that combinations for these purposes, which are really for the consumers' benefit, when approved by an appropriate governmental agency, should not be held to be in unreasonable restraint of trade,—in other words, a law defining the particular kinds and purposes of combinations which are reasonable instead of leaving this question, as the supreme court has done, to the application in every case of the "rule of reason" as determined by standards of judgment outside the law itself.

But this whole question, profoundly important as it is, was not created by the war. It is not a war reconstruction problem. The war has simply emphasized its existence, and the possibility of an improvement in our policy towards it. In this same class belong many other problems for which legislative remedies of one kind or another are now suggested,—woman suffrage, minimum wage, permanent employment agencies, price regulation, federal supervision over capital issues, federal loans to private enterprise, and a score of others.

In the main, none of these are true war reconstruction problems. They may have been given new life and emphasis by the war; but the war did not create them, and they should not be confused with or treated as questions which the war itself has brought to our door. Passing to this latter field, it is remarkable how very few questions are embraced within it which, at this time, are adequately and clearly defined in all their elements.

One of these is the disposition to be made of the railroads, the steamships, the express companies, and the telegraph, telephone and cable lines, all now under government control. This control was exerted as a war measure solely. What to do with it may fairly be regarded as a problem left on our hands by the war, and yet even its solution can hardly be divorced from questions of

government ownership and regulation, which have long been with us, and, in the case of the steamships, from questions which may arise from the terms of final peace.

In the same class of war problems falls the disposition to be made of the war risk insurance policies, whether they shall be carried by the government or transferred to private companies, and, in either event, under what conditions as to reserve,—although here, too, the solution will largely involve questions of government insurance and pensions which are by no means new.

The method of taxation, whereby we will arrange for the payment of our war loans for which sinking funds have not yet been provided, and for the discharge of our war debts and obligations which are to be met from the general treasury, is, of course, an inheritance of the war. It must be solved with scrupulous regard for the ability of industry to pay, and without undue obstacles to initiative and new enterprise. In this connection, two suggestions may be permitted relative to the pending income tax bill,—the speedy passage of which, by the way, is imperatively needed for the business welfare of our country.

First, the tax upon new enterprises must not be so high as to destroy the initiative to embark upon them. To avoid this, a reserve should be permitted which will be sufficient, over a term of years, to amortize the expenditures necessary to organize and bring new enterprises to a producing basis. The second suggestion is vital to thousands of manufacturing and mercantile establishments today. In computing their income for the purpose of taxation, these establishments must take into account not only their cash receipts, but also their inventory values, and the materials which make up the inventory must be taken either at cost or at market value, whichever is lowest. The going concern necessarily invests and reinvests a large amount of its receipts in the materials in which it deals, so that at the close of the year its profits are not in bank, but are in large part represented in its inventory, at either the cost or the market value of the materials. If, now, the goods are sold for as much as they or the raw materials entering into them are carried in the inventory, then this profit is realized, but if, because of a fall in prices, the goods are sold for very much less than the inventory values, then, of course, the profit is simply a paper profit, and never realized at all.

The close of the year will find the manufacturers of this country carrying millions of dollars of merchandise and materials at cost or market prices. These prices were high, because the goods were bought during a period of rapid advance in the cost and value of practically all raw materials and of finished products as well. They will go into the year's profits at these high figures. But the goods are still on hand, and the manufacturers are now confronted with a period in which there will be a decreasing value for these same goods. Prices are certain to fall, and the goods will not be salable for anything like the inventory values, and yet the inventory value is the basis upon which this year's profits must be computed.

The manufacturers of the country should not be required to pay taxes on profits which are paper profits, which never have been and never will be realized. Thousands of them could not do so without serious business hardship or ruin. To remedy this obvious and really disastrous injustice, a provision should be added to the pending income tax bill which will permit the manufacturer to deduct from his gross income a reserve sufficient to meet the probable fall in prices of the materials which are carried in his inventory at cost. When the goods are actually sold, the profit actually realized will be charged against this reserve, and the tax will be paid upon it. In this way, the government would receive taxes upon the profit actually realized, which is all it is entitled to, and the manufacturer would be relieved from paying on bookkeeping profits, never realized in fact.

The government-controlled utilities, the war risk insurance and taxation have been referred to as problems to which the war really gave rise. What else is there due to the war? Many possible questions may be conjectured and many of them may materialize. But what else is there which at this time has crystallized into a problem of sufficient definiteness to show the need for legislative solution, and which may not change or even disappear altogether by developments in this country or by actions at the peace table?

It was at first thought that legislation must be had to meet in some way the conditions resulting from the cancellation of millions of dollars of war contracts. What was to become of the vast stores of raw materials bought for these contracts and now released? And the manufacturers who had borrowed against these con-

tracts,—were they to be called by the banks and become bankrupt because they could not pay? And what of the laborers whom these cancellations would throw out of employment,—must not some provision be made for getting them work elsewhere?

Some legislation in this field has, indeed, been found necessary. Protection must be given to manufacturers who began work upon government orders without waiting for formal contracts, so that the orders might be filled without delay, and who now find these orders cancelled, and have no contract under which they can receive their just compensation. But this is only a comparatively small phase of what many believed was a tremendous problem confronting us.

As a matter of fact, these cancellations are being made under careful supervision, without undue abruptness, and with proper regard to the industries and to the labor involved, and to just compensation; because of this, and because, also, of the facility of adjustment which marks American business, the whole problem which a month ago loomed so large is rapidly working itself out.

It is the same with countless other questions for which legislative remedies are now suggested,—what to do with our returning soldiers and sailors and with our women workers, with the surplus of supplies which peace leaves on the government's hands, with our war plants which must now be converted into peace plants; the development of new and of foreign markets; the control of industrial prices to prevent ruinous competition; and a hundred and one other questions which, we are told, can only be solved through some form of government paternalism.

Perhaps the future may show that legislation will be helpful to some of these conditions; but in the meanwhile let us not forget that the soldiers and sailors who had the initiative and the industry to learn the arts of war, and the courage to face and suffer death for the victory they have won, will be able to apply themselves with equal initiative and industry and courage to the arts of peace, which, less than two years ago, were all that most of them ever knew. The women of America can take up their duties of peace without legislative assistance, just as they needed no legislation to take up their duties of war. The government can be trusted to dispose of its supplies wisely, and without competition with private interests. American industry and business initiative will

of themselves solve problems of plant conversions, new markets, and price stabilization while paternalism is still evolving plans to help them.

So we will find that problems which many now think may require legislation will not require legislation at all. They will solve themselves. Let us wait to see if this is not so, or at least wait until the problems themselves are clearly defined, before advancing legislative cures for ills which may never need them. For the rest, we must await the outcome of the Peace Conference at Versailles. From that may develop post-war industrial problems that are both real and serious. Changes in the map of Europe, iron ore, copper or other deposits or coal mines transferred from one nation to another, obligations assumed by us to transport and supply food and raw materials to Europe, lost or acquired colonies, tariff regulations of other countries, international pooling of raw materials, these and a hundred other possibilities may change the industrial balances of the world which has gone, and break down old economic advantages and barriers and erect others for the world which is to be.

These possibilities we can now see only in their outline. We can see them plainly enough, it is true, to know that allied with the international and political problems of the Peace Conference, or incidental to them, there may be questions vital to the economic and industrial welfare of our own country, the solution of which may bring us or deny us the markets of the world.

But these questions have not taken definite form as yet, and so we cannot now shape the policies which should be ours. We can, however, rejoice in the confidence that the best business brains of the country,—the brains of men whose hands have been upon the pulse of our industrial and economic life, and who know the international moves which may check it as well as those which will inspire it with renewed vitality,—will be in our country's service at the Peace Conference, watchful of our industrial situation, and suggestive as to its needs.

Thus out of it all may come not only a peace which is lasting, but also that which is essential to our welfare and future growth,—an economic and industrial progress proportioned to our natural resources and advantages and to our national initiative and due.